



# NATURAL GAS UPDATE

August 2004

**Natural Gas Prices (\$/MMBtu)**

Average Price	July 2004	June 2004	July 2003
PG&E, Malin	5.52	5.51	4.97
PG&E, SoCal Border	5.65	5.64	5.35
SoCalGas Average	5.74	5.83	5.35
Henry Hub, Louisiana	5.93	6.29	5.07

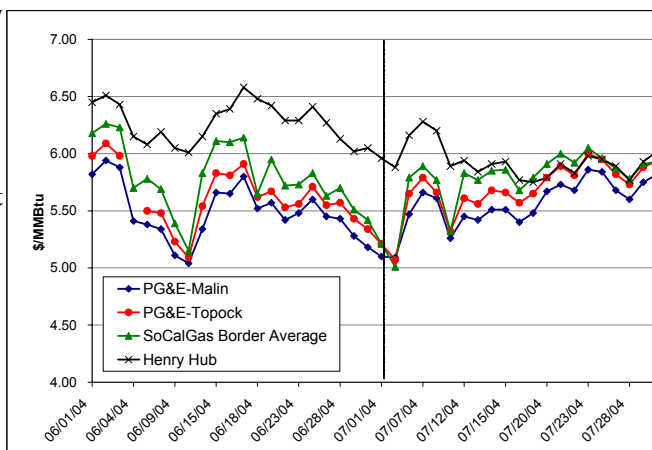
Source: Natural Gas Intelligence

**Natural Gas Prices**

Over the course of July 2004, natural gas spot prices at the California border increased steadily from a daily average of around \$5 per MMBtu on the first day of the month to around \$6 per MMBtu by month's end.

Warmer temperatures in the Southwestern U.S. and California increased electricity demand, culminating in three consecutive days of record peak electricity demand in

California from July 19 to 21. Complicating matters, three key non-gas-fired electricity generating facilities – Diablo Canyon, Mohave, and Palo Verde Unit 2 – were briefly unavailable at various points during July 2004. The hot weather, combined with the untimely outages at the non-gas-fired generating facilities, increased demand for natural gas in California and caused average spot prices to top \$6 per MMBtu at the Southern California twice during the month. Additionally, the

**Figure 1: Daily Natural Gas Spot Prices***(Please see "Natural Gas Prices" on page 2)***Inside the Natural Gas Update:**

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This document was prepared for the California Natural Gas Working Group. The California Natural Gas Working Group is a consortium of California State Government Agencies including:

California Air Resources Board  
California Energy Commission  
California Public Utilities Commission  
California State Lands Commission  
Department of Conservation, Division of Oil, Gas, & Geothermal Resources  
Department of General Services  
Department of Water Resources

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**California System Operations and Gas Storage Update**

During July 2004, receipts into the PG&E system averaged 2.5 Bcf/d, with PG&E's pipeline receipt capacity averaging about 85 percent full. PG&E's average daily receipts during July 2004 were about three percent below the average daily July receipts during the previous three years. PG&E's deliveries to customers averaged 2.4 Bcf/d during the month, about two percent lower than the average daily deliveries during the previous three years. However, beginning in the second week of July, customer deliveries in the PG&E area routinely exceeded receipts, as rising temperatures increased the need for power generation. (see Figure 3, page 2) The additional demand was met by withdrawals from storage, particularly from the state's privately owned facilities, Wild Goose and Lodi, which tend to serve electricity generators. During July, pipeline receipts for SoCalGas averaged 2.9 Bcf/d, around 10 percent lower than the previous three year average, as SoCalGas used an average of 74 percent of its receipt capacity. SoCalGas' system deliveries averaged 2.6 Bcf/d, nine percent lower than the average daily sendout during June over the past three years. Like PG&E, SoCalGas' customer demand occasionally exceeded system receipts, most notably during the record peak electricity days of July 19 to 21; however, storage was not used to meet demand as often in Southern California as it was in Northern California. (see Figure 2, page 2)

July's hot temperatures put a damper on storage injections during the month, although California storage customers did record a net increase to storage of over 6 Bcf during July 2004. Both of the state's natural gas utilities managed to build

*(Please see "System Operations" on page 2)*

## Natural Gas Prices

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large, negative basis differential between California and Henry Hub spot prices evaporated with the state's hot temperatures during July.

Mild weather influences from other parts of the country helped keep month-ahead contract prices for August 2004 below \$6 per MMBtu. Bidweek prices for Malin, PG&E Southern Border, and SoCal Border averaged \$5.64, \$5.80, and \$5.81 per MMBtu, respectively.

Nationally, natural gas spot prices trended essentially flat during July 2004. Outside of the Southwestern U.S. and West Coast, most of the country experienced mild weather during the month. However, strong influences from the energy futures complex, led by crude oil, prevented the lower than normal cooling demand from resulting in any significant decreases in natural gas prices. ■

## California System Operations and Gas Storage Update

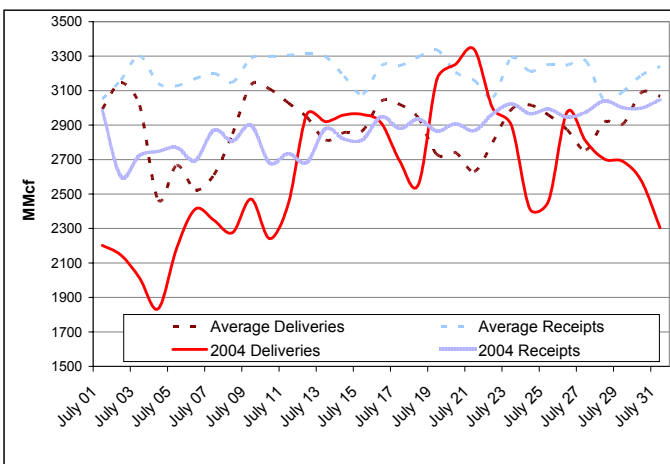


Figure 2. SoCalGas' Deliveries of Natural Gas, July 2004

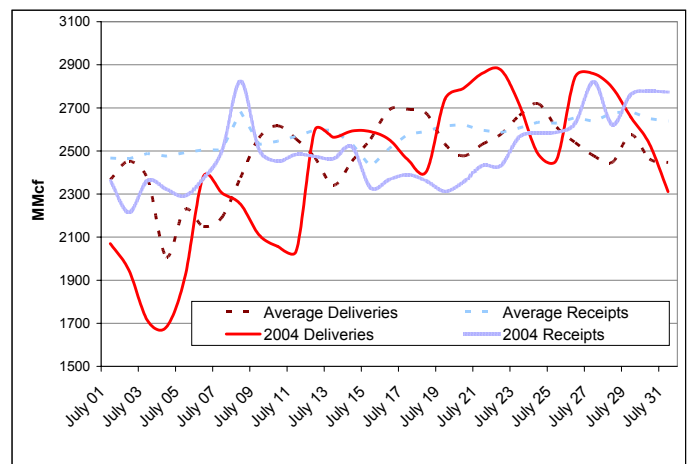


Figure 3. PG&E's Deliveries of Natural Gas, July 2004

## System Operations

(Continued from page 1)

inventories during the month, despite brief periods of storage withdrawals. The two privately-owned facilities in the state, however, ended July 2004 with net withdrawals from storage. As of August 1, 2004, the statewide inventories of stored gas stood at 207 Bcf, compared to the five-year average August 1 inventory of 182 Bcf. (Figure 4) ■

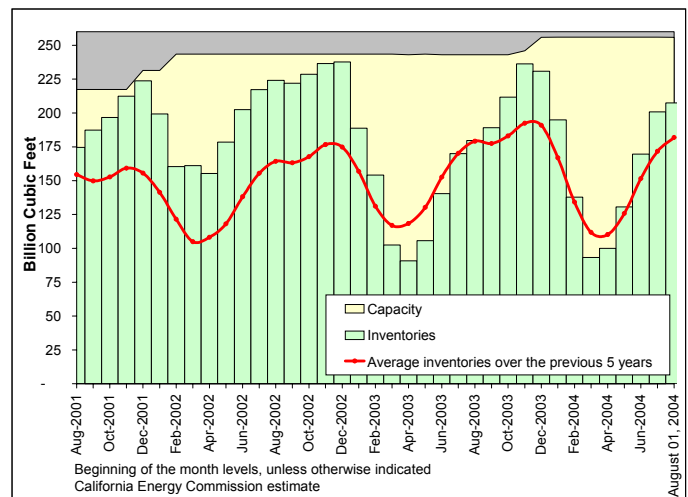


Figure 4. Monthly California Storage Inventories

### U.S. Natural Gas Storage

According to the EIA, U.S. storage facility operators injected about 333 Bcf into storage during July 2004. As of July 30, 2004, the nationwide inventory was 2,380 Bcf, compared to 2,138 Bcf one year ago. The five year average for this time of year is 2,282 Bcf. Given the relatively high price of gas next winter on the NYMEX futures market, there should be more than adequate incentive for customers to continue to store natural gas throughout the injection season.

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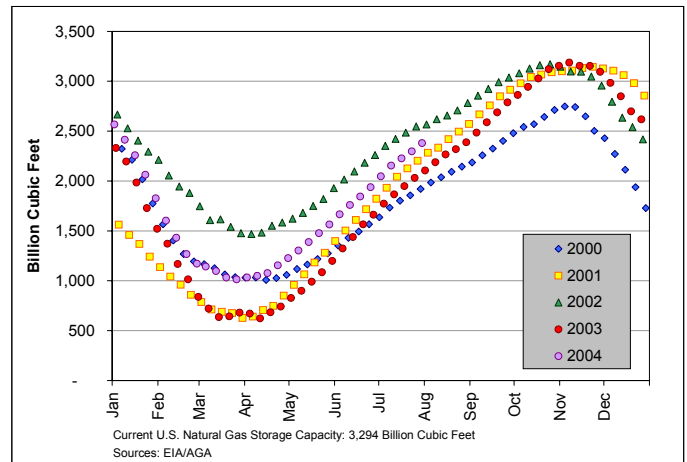


Figure 5. U.S. Natural Gas Storage Levels

### California Gas Drilling and Production

Natural gas production inside California increased slightly during April 2004, the first monthly increase since January. The statewide increase was attributable to increased output from Elk Hills, as production in the Sacramento Valley remained flat. Statewide natural gas production remains below 900 million cubic feet per day despite high regional gas prices. (Figure 6)

As of July 2004, the 68 natural gas drilling permits have been issued for the Sacramento Valley in 2004. This is 11 more permits than were issued through July of 2003, and four more than the average number of permits issued through July since 2000, excluding 2001. That year is excluded because of the anomalous amount of natural gas drilling activity that occurred in California during 2001 owing to the energy crisis.

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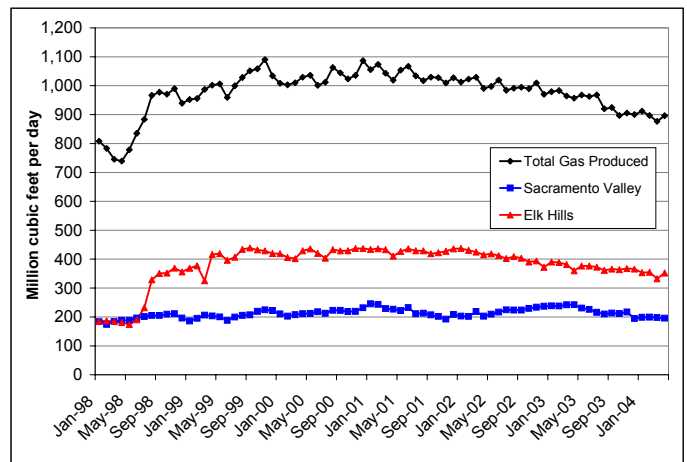


Figure 6. California Natural Gas Production

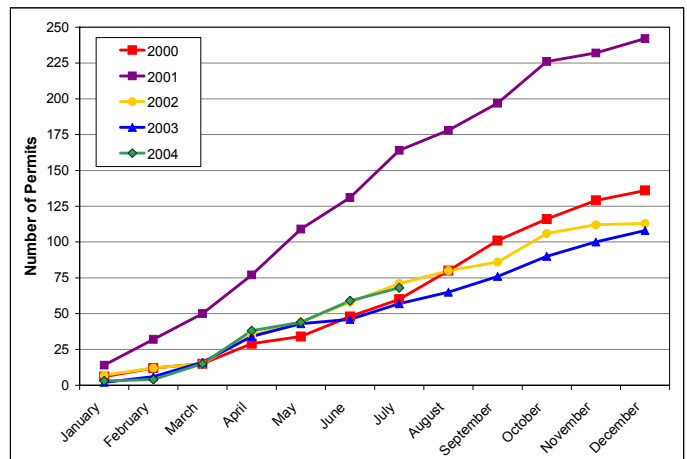


Figure 7. Drilling Permits Issued for the Sacramento Valley

## Regulatory Summary

## California Public Utilities Commission Cases

Proceeding Number & Title	Description	Status (Italics indicate change from previous week)
<b>I0211040</b> <b>Investigation on Natural Gas Prices from December 2000 to May 2001</b>	Investigates gas market activities of California utilities and their impact on gas prices at the California border from March 2000 through May 2001.	Phase 1A hearings have been completed, briefs are due August 13, 2004 and reply briefs are due September 10, 2004
<b>I0404024</b> <b>Order Instituting Investigation into the proposal of Sound Energy Solutions to construct and operate a liquefied natural gas terminal at the Port of Long Beach</b>	<i>Orders Sound Energy Solutions (SES) to file an application for a certificate of public convenience and necessity if it intends to pursue construction of the project, and promotes public safety and California's environmental welfare, consistent with state and federal law.</i>	<i>Prehearing Conference scheduled for August 23, 2004 in Long Beach</i>
<b>A0403021</b> <b>2005 Gas Accord II</b>	<i>PG&amp;E's proposal for cost of service and rates for gas transmission and storage services and backbone level service and rates for 2005, as required by Commission decision D03-12-061 (Gas Accord II).</i>	<i>At an August 2, 2004 prehearing conference, PG&amp;E informed the Commission that it reached an all-party settlement in the proceeding that would settle backbone transmission and storage rates and market structure for 2005-2007. PG&amp;E will formally file the settlement on August 27, 2004. If adopted by the Commission, the settlement would eliminate the need for a 2006 Gas Accord filing.</i>
<b>Xxxxxxxx</b> <b>2006 Gas Accord</b>	<i>PG&amp;E's proposal for market structure and rates that PG&amp;E's gas transmission and storage system will operate under beginning January 1, 2006, and how long the rates in such a structure should remain in place.</i>	
<b>R0401025</b> <b>Policies and Rules to Ensure Reliable, Long-term Supplies of Natural Gas to California</b>	Considers and rules on California natural gas utilities' proposals to ensuring reliable, long-term supplies of natural gas to California, including interstate pipelines, LNG, storage, and in-state production.	Phase 2 comments and reply comments have been submitted. A Phase 1 Proposed Decision was mailed on July 20, 2004. Comments on the PD to be filed on August 9, 2004. The Commission may decide on the Phase 1 decision as early as August 19, 2004.
<b>PG&amp;E BCAP Application 04-07-044</b>		filed on July 30, 2004